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BEFORE THE ARIZONA CORPORATION COMMISSION

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DOUG LITTLE -CHAIRMAN
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2016 FEB 19 P 3: 53

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. FOR
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF SULPHUR
SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. DEVOTED TO ITS
OPERATIONS IN THE STATE OF ARIZONA
AND RELATED APPROVALS.

DOCKET NO. E-01575A-15-0312

NOTICE OF FILING
STAFF'S DIRECT TESTIMONY

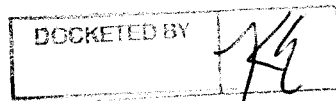
The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Direct Testimony of Staff witnesses Crystal S. Brown, Julie McNeely-Kirwan and Ray T. Williamson, regarding the above-referenced matter.

RESPECTFULLY SUBMITTED this 19th day of February, 2016.

Arizona Corporation Commission

DOCKETED

FEB 19 2016



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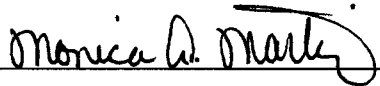
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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-01575A-15-0312
SULPHUR SPRINGS VALLEY ELECTRIC)	
COOPERATIVE, INC. FOR A HEARING TO)	
DETERMINE THE FAIR VALUE OF ITS)	
PROPERTY FOR RATEMAKING PURPOSES,)	
TO FIX A JUST AND REASONABLE RETURN)	
THEREON, TO APPROVE RATES DESIGNED)	
TO DEVELOP SUCH RETURN AND FOR)	
RELATED APPROVALS.)	
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DIRECT
TESTIMONY
OF
CRYSTAL S. BROWN
EXECUTIVE CONSULTANT III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2016

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EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-15-0312

Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs" or "Cooperative") is a certificated Arizona-based non-profit rural electric distribution cooperative. Sulphur Springs provides power and energy to approximately 53,000 customers in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties, Arizona.

Sulphur Springs proposed a \$3,101,498, or 3.17 percent, revenue increase from \$97,703,142 to \$100,804,640. The proposed revenue requirement would produce an operating margin after interest expense on long-term debt of \$7,234,777 for a 6.41 percent rate of return on an original cost rate base of \$208,373,755 and produces an operating Time Interest Earned Ratio ("TIER") of 2.20.

Staff recommends the same revenue as the Cooperative. Staff recommends total annual operating revenue of \$100,804,640. This recommended revenue requirement would produce an operating margin after interest expense on long-term debt of \$7,234,777 for a 6.41 percent rate of return on an original cost rate base of \$208,373,755 and produces an operating TIER of 2.20 as shown on Schedule CSB-1.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am an Executive Consultant III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Business Administration from the University of Arizona and a Bachelor of Science Degree in Accounting from Arizona State University.

Since joining the Commission in August 1996, I have participated in numerous rate cases and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I have testified on matters involving regulatory accounting and auditing. Additionally, I have attended utility-related seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to provide continuing and updated education in these areas.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating
3 revenues and expenses and revenue requirement regarding Sulphur Springs Valley Electric
4 Cooperative, Inc.'s ("Sulphur Springs" or "Cooperative") application for a permanent rate
5 increase.

6
7 **Q. Who else is providing Staff testimony and what issues will they address?**

8 A. Staff witness Julie McNeely-Kirwan is presenting Staff's base cost of power recommendation.
9 Ms. McNeely-Kirwan is also presenting Staff's recommendation concerning the Cooperative's
10 rules and regulations. Staff witness Ranelle Paladino is presenting Staff's rate design
11 recommendations. Staff witness Ray Williamson is presenting Staff's engineering analysis and
12 recommendations.

13
14 **BACKGROUND**

15 **Q. Please review the background of this application.**

16 A. Sulphur Springs is a certificated Arizona-based non-profit rural electric distribution
17 cooperative. Sulphur Springs provides power and energy to approximately 53,000 customers
18 in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties, Arizona.

19
20 Sulphur Springs filed an application for a permanent rate increase on August 31, 2015. On
21 September 30, 2015, Staff notified the Cooperative that its application met the sufficiency
22 requirements. Sulphur Springs' current rates were authorized in Decision No. 74381, dated
23 March 19, 2014.

24

1 **Q. What is the primary reason for the Cooperative's requested permanent rate increase?**

2 A. According to the Cooperative, the primary reason for the rate increase is to cover fixed costs.
3 The Cooperative is also proposing changes to its rate design.
4

5 **CONSUMER SERVICES**

6 **Q. Please provide a brief history of customer complaints received by the Commission**
7 **regarding Sulphur Springs.**

8 A. A review of Consumer Services records for the time frame of January 1, 2013, through
9 January 8, 2016, reflects forty one complaints have been filed.

10
11 2016 - 0 Complaints
12 2015 - 8 Complaints
13 2014 - 8 Complaints
14 2013 - 25 Complaints
15

16 A breakdown of the above listed complaints is listed below as follows:

17
18 2015 Complaints

19 Billing 4
20 Construction 1
21 Deposits 2
22 Rates & Service 1
23 Total 8
24

25 2014 Complaints

26 Admin Question 1
27 Policy/Procedures 1
28 Quality of Service 4
29 Service 2
30 Total 8
31

32 2013 Complaints

33 Billing 6
34 Construction 1
35 Deposit 3
36 Disconnect 4
37 Service 1
38 Damages/Claims 1
39 Net Metering 1
40 R & R's 1

Quality of Service	5
<u>Rules/Tariffs</u>	<u>2</u>
Total	25

Six complaints remain open, all others have been resolved and closed.

PUBLIC NOTICE

Q. Has the Cooperative filed its affidavit of customer notification?

A. Yes, the Cooperative filed its Affidavit of Mailing Customer Notice on December 30, 2015.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Cooperative's filing.

A. Sulphur Springs proposed a \$3,101,498, or 3.17 percent, revenue increase from \$97,703,142 to \$100,804,640. The proposed revenue requirement would produce an operating margin after interest expense on long-term debt of \$7,234,777 for a 6.41 percent rate of return on an original cost rate base of \$208,373,755 and produces an operating Time Interest Earned Ratio ("TIER") of 2.20.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends the same revenue as the Cooperative. Staff recommends total annual operating revenue of \$100,804,640. This recommended revenue requirement would produce an operating margin of \$7,234,777 after interest expense on long-term debt for a 6.41 percent rate of return on an original cost rate base of \$208,373,755 and produces an operating TIER of 2.20 as shown on Schedule CSB-1.

1 **Q. What test year did Sulphur Springs utilize in this filing?**

2 A. Sulphur Springs' rate filing is based on the twelve months ended December 31, 2014 ("test
3 year").
4

5 **Q. Please summarize the rate base and operating margin recommendations and**
6 **adjustments addressed in your testimony for Sulphur Springs.**

7 A. Staff made no adjustments to rate base. Staff's adjustment to operating revenue addresses the
8 following issue:

9 Base Cost of Power and Power Cost Adjustor ("PCA") – This adjustment matches the Base
10 Cost of Power Revenue to the Staff recommended Base Cost of Power Expense and
11 eliminates the PCA revenues from operating revenues. The net result of these adjustments is
12 zero.
13

14 **RATE BASE**

15 *Fair Value Rate Base*

16 **Q. Did the Cooperative prepare a schedule showing the elements of Reconstruction Cost**
17 **New Rate Base?**

18 A. No, the Cooperative did not. The Cooperative's filing treats the original cost rate base the
19 same as the fair value rate base. Staff supports this proposal.
20

21 *Rate Base Summary*

22 **Q. Please summarize Staff's adjustments to Sulphur Springs' rate base shown on**
23 **Schedules CSB-2 and CSB-3.**

24 A. Staff made no adjustments to rate base. Staff reviewed the Cooperative's filing and found
25 that Sulphur Springs appropriately omitted construction work in progress ("CWIP") from
26 rate base as CWIP is not used and useful. Moreover, the Cooperative appropriately omitted

1 cash working capital from rate base as the cash working capital was not supported by a lead-
2 lag study.

3
4 **OPERATING MARGIN**

5 *Operating Margin Summary*

6 **Q. What are the results of Staff's analysis of test year revenues, expenses and operating**
7 **margin?**

8 A. As shown on Schedules CSB-4 and CSB-5, Staff's analysis resulted in test year revenues of
9 \$97,703,142, expenses of \$87,445,386 and operating margin after interest expense of
10 \$4,133,279.

11
12 *Operating Margin Adjustment 1 – Base Cost of Power Revenue and Power Cost Adjustor*

13 Base Cost of Power Revenue

14 **Q. What is the base cost of power ("BCOP") rate and how is it calculated?**

15 A. The BCOP rate is the portion of the base rate that recovers the test year purchased power
16 expense. The BCOP rate is calculated by dividing the test year purchased power expense by
17 the number of kWh's sold in the test year.

18
19 **Q. For ratemaking purposes, should the revenues generated from the BCOP rate match**
20 **purchased power expense?**

21 A. Yes, the revenues generated from the BCOP rate ("BCOP revenue") should match the
22 purchased power expense since the BCOP rate is designed to recover the test year level of
23 purchased power expense.

24

1 **Q. Is the Cooperative proposing to change its base cost of power rate?**

2 A. Yes, the Cooperative is proposing to decrease its base cost of power rate from \$0.072127 per
3 kWh to \$0.065857 per kWh as discussed in greater detail by Staff witness Julie McNeely-
4 Kirwan.

5
6 **Q. Did Sulphur Springs make a pro forma adjustment to test year revenues and expenses
7 to match its BCOP revenue to its purchased power expense?**

8 A. Yes. The Cooperative made a pro forma adjustment to decrease actual test year purchased
9 power expense by \$4,455,507; from \$56,681,170 to \$52,225,663. It also made a similar
10 adjustment to reflect \$52,226,019 for base cost of power in revenue. The \$356 difference
11 (\$52,226,019 BCOP revenue - \$52,225,663 purchased power expense = \$356) is due to
12 rounding as shown on Schedules CSB-5 and CSB-6.

13
14 **Q. Was Sulphur Springs' pro forma adjustment to match its base cost of power revenue
15 to purchase power expense appropriate?**

16 A. Yes, since the Cooperative has a purchased power adjustor mechanism that facilitates full
17 recovery of purchased power expense.

18
19 Power Cost Adjustor Revenues

20 **Q. Explain the purpose of the break-out of the total revenue from sales of electricity into
21 components as shown on Schedules CSB-5 and CSB-6.**

22 A. The purpose is to show the portion of revenue that is generated from base rates separately
23 from revenue that is generated from margin revenue, and the power cost adjustor.

24

1 **Q. What amount is Sulphur Springs proposing for its power cost adjustor ("PCA")**
2 **revenue?**

3 A. The Cooperative proposes a negative \$4,724,035 for its PCA revenue as shown on Schedules
4 CSB-5 and CSB-6.
5

6 **Q. Is it appropriate to include monies from the Cooperative's PCA in test year operating**
7 **revenues for rate making purposes?**

8 A. No, it is not appropriate. The Cooperative's test year base rate revenue is the starting point
9 from which to measure the amount of increase in revenue that is necessary to recover *all* of
10 the Cooperative's operating expenses (including the test year purchased power expense of
11 \$52,225,663) plus a return on rate base. Consequently, for rate making purposes, the revenue
12 generated by the PCA rate would not reflect recovery of *any* expense in the revenue
13 requirement, and therefore, should be eliminated.
14

15 Further, the PCA revenues are set using a mechanism that facilitates full recovery of all
16 purchased power costs and is separate from that used to set base rates. The adjustor
17 mechanism ensures that the Cooperative neither over nor under recovers purchased power
18 cost. Moreover, the Cooperative can change the PCA rate without a rate case based on over-
19 or under-collections in the Cooperative's fuel bank. This means that changes in the cost of
20 purchased power do not affect income.
21

22 **Q. What is Staff recommending?**

23 A. Staff recommends increasing test year revenues by \$4,724,035 to eliminate PCA revenues as
24 shown on Schedules CSB-5 and CSB-6.
25

DEBT SERVICE COVERAGE RATIO ("DSC")

Q. Did the Cooperative calculate the DSC differently than Staff?

A. Yes. The Cooperative calculated a DSC of 1.94 whereas Staff calculated a DSC of 1.85.

Q. How does Sulphur Springs calculate the DSC?

A. Sulphur Springs uses the DSC calculation prescribed by the National Rural Utilities Cooperative Finance Corporation ("CFC"). The CFC includes revenues derived from activities that are not a part of the Cooperative's core electric retail sales business (i.e. non-operating margin interest revenue and cash capital credit revenue). The CFC calculation is as follows:

For any calendar year add (1) Operating Margins, (2) Non-Operating Margins-Interest, (3) Interest Expense on long-term debt, (4) Depreciation and Amortization Expense, and (5) cash received from capital credits. Divide the sum so obtained by the sum of all payments of Principal and Interest on long-term debt.

Q. How does Staff's DSC calculation differ from the Cooperative's?

A. Staff's calculation is similar but excludes non-operating revenue from interest and capital credits.

Q. Why does Staff exclude non-operating revenue in its DSC calculation?

A. Non-operating revenue tends to vary from year to year. Staff's calculation measures the Cooperative's ability to make principal and interest payments based solely on the Cooperative's core operating results. Since operating results are generally more consistent than non-operating results, Staff's calculation provides a more reliable indication of ability to service debt.

1 **Q. Is the lower 1.85 DSC Staff calculates acceptable?**

2 A. Yes, it is.

3

4 **Q. Does this conclude Staff's direct testimony?**

5 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COOPERATIVE FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 208,373,755	\$ 208,373,755
2	Margin (Loss) After Interest on L.T. Debt	\$ 4,133,279	\$ 4,133,279
3	Current Rate of Return (L2 / L1)	1.98%	1.98%
4	Required Rate of Return	6.41%	6.41%
5a	Required Margin (Loss) Before Interest on L.T. Debt (L4 * L1)	\$ 13,359,254	\$ 13,356,758
5b	Required Margin (Loss) After Interest on L.T. Debt	\$ 7,234,777	\$ 7,234,777
6	Operating Margin Deficiency (L5b - L2)	\$ 3,101,498	\$ 3,101,498
7	Gross Revenue Conversion Factor	1.0000	1.0000
8	Required Revenue Increase/(Decrease) (L7 * L6)	\$ 3,101,498	\$ 3,101,498
9	Adjusted Test Year Revenue	\$ 97,703,142	\$ 97,703,142
10	Proposed Annual Revenue (L8 + L9)	\$ 100,804,640	\$ 100,804,640
11	Required Increase in Revenue (%)	3.17%	3.17%
12	Depreciation and Amortization Expense	\$ 10,857,765	\$ 10,857,765
13	Interest Expense on Long-term Debt	\$ 6,028,981	\$ 6,028,981
14	Interest Income	\$ 171,224	\$ 171,224
15	Principal Payments	\$ 6,987,062	\$ 6,987,062
16	Cash Capital Credits	\$ 955,159	\$ 955,159
17	TIER ((L 5 + L 13) / L 13)	2.20	2.20
18	DSC ((L 5 + L 12 + L 13 + L 14 + L 16) / (L 13 + L 15) - Per Cooperative	1.94	N/A
19	DSC ((L 5 + L 12 + L 13) / (L 13 + L 15) - Per Staff	N/A	1.85

References:

Column (A): Company Schedules A-1, A-2, & B-1

Column (B): Staff Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.	[A] COOPERATIVE AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1 Plant in Service	\$ 328,798,905	\$ -	\$ 328,798,905
2 Less: Acc Depreciation & Amortization	(121,553,067)	-	(121,553,067)
3 Net Plant in Service	<u>\$ 207,245,838</u>	<u>\$ -</u>	<u>\$ 207,245,838</u>
<u>LESS:</u>			
4 Consumer Deposits	\$ (2,732,323)	\$ -	\$ (2,732,323)
5 Consumer Advances	\$ (96,781)	\$ -	\$ (96,781)
6 Deferred Credits	\$ -	\$ -	\$ -
7 Total	<u>(2,829,104)</u>	<u>-</u>	<u>(2,829,104)</u>
<u>ADD:</u>			
8 Cash Working Capital	\$ -	\$ -	\$ -
9 Materials and Supplies	\$ 2,650,491	\$ -	\$ 2,650,491
10 Prepayments	\$ 1,306,530	\$ -	\$ 1,306,530
11 Total	<u>\$ 3,957,021</u>	<u>\$ -</u>	<u>\$ 3,957,021</u>
12 Total Rate Base	<u>\$ 208,373,755</u>	<u>\$ -</u>	<u>\$ 208,373,755</u>

References:

Column [A], Cooperative Schedule B-1
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-15-0312
Test Year Ended December 31, 2014

Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COOPERATIVE AS FILED	ADJUSTMENTS	STAFF ADJUSTED
	Acct. No. <u>PLANT IN SERVICE:</u>			
1	346 Solar Production Panels and Equipment	\$ 5,418,964	\$ -	\$ 5,418,964
2	350 Transmission Plant - Land and Land Rights	\$ 1,051,896	\$ -	\$ 1,051,896
3	353 Transmission Plant - Station Equipment	\$ 1,538,886	\$ -	\$ 1,538,886
4	355 Transmission Plant - Poles and Fixtures	\$ 14,095,714	\$ -	\$ 14,095,714
5	356 Transmission Plant - OH Conductors	\$ 17,438,117	\$ -	\$ 17,438,117
6	360 Distribution Plant - Land and Land Rights	\$ 438,067	\$ -	\$ 438,067
7	361 Distribution Plant - Structures and Improvements	\$ 660,197	\$ -	\$ 660,197
8	362 Distribution Plant - Substation Equipment	\$ 28,609,446	\$ -	\$ 28,609,446
9	364 Distribution Plant - Poles, Towers, and Fixtures	\$ 56,052,611	\$ -	\$ 56,052,611
10	365 Distribution Plant - Conductors and Devices	\$ 37,882,046	\$ -	\$ 37,882,046
11	366 Distribution Plant - Underground Conduit	\$ 24,349,294	\$ -	\$ 24,349,294
12	367 Distribution Plant - Underground Conductors	\$ 40,366,827	\$ -	\$ 40,366,827
13	368 Distribution Plant - Transformers	\$ 55,440,604	\$ -	\$ 55,440,604
14	369 Distribution Plant - Services	\$ 9,931,495	\$ -	\$ 9,931,495
15	370 Distribution Plant - Meters	\$ 20,077,102	\$ -	\$ 20,077,102
16	371 Distribution Plant - Install. On Customers Premises	\$ 2,174,149	\$ -	\$ 2,174,149
17	373 Distribution Plant - Street Lighting and Signal Syst	\$ 3,969,068	\$ -	\$ 3,969,068
18	389 General Plant - Land and Land Rights	\$ 806,591	\$ -	\$ 806,591
19	390 General Plant - Structures and Improvements	\$ 11,434,576	\$ -	\$ 11,434,576
20	391 General Plant - Office Furniture and Equipment	\$ 4,865,525	\$ -	\$ 4,865,525
21	392 General Plant - Transportation Equipment	\$ 5,933,298	\$ -	\$ 5,933,298
22	393 General Plant - Stores Equipment	\$ 211,969	\$ -	\$ 211,969
23	394 General Plant - Tools, Shop, & Garage Equipment	\$ 2,455,903	\$ -	\$ 2,455,903
24	395 General Plant - Laboratory Equipment	\$ 878,967	\$ -	\$ 878,967
25	396 General Plant - Power Operated Equipment	\$ 12,635,559	\$ -	\$ 12,635,559
26	397 General Plant - Communications Equipment	\$ 1,238,456	\$ -	\$ 1,238,456
27	398 General Plant - Miscellaneous	\$ (31,228,238)	\$ -	\$ (31,228,238)
28	399 General Plant - Contributed dollars	\$ 71,817	\$ -	\$ 71,817
29	Total Plant in Service	\$ 328,798,905	\$ -	\$ 328,798,905
30	Less: Accumulated Depreciation	\$ (121,553,067)	\$ -	\$ (121,553,067)
31	Less: Accumulated Amortization	-	-	-
32	Total Accumulated Depreciation & Amortization	\$ (121,553,067)	\$ -	\$ (121,553,067)
33	Net Plant in Service	\$ 207,245,838	\$ -	\$ 207,245,838
	<u>LESS:</u>			
34	Consumer Deposits	\$ (2,732,323)	\$ -	\$ (2,732,323)
35	Consumer Advances	\$ (96,781)	\$ -	\$ (96,781)
36	Deferred Credits	\$ -	\$ -	\$ -
37	Total	\$ (2,829,104)	\$ -	\$ (2,829,104)
	<u>ADD:</u>			
38	Cash Working Capital	\$ -	\$ -	\$ -
39	Materials and Supplies	\$ 2,650,491	\$ -	\$ 2,650,491
40	Prepayments	\$ 1,306,530	\$ -	\$ 1,306,530
41	Total	\$ 3,957,021	\$ -	\$ 3,957,021
42	Total Rate Base	\$ 208,373,755	\$ -	\$ 208,373,755

OPERATING MARGIN - TEST YEAR AND STAFF PROPOSED

Line No.	DESCRIPTION	[A] COOPERATIVE TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Margin Revenue (Non-Base Cost of Power)	\$ 42,173,757	\$ -	\$ 42,173,757	\$ 3,101,498	\$ 45,275,255
4						
5	Base Cost of Power Revenue ("BCOP")	\$ 57,198,264	\$ (4,724,035)	\$ 52,474,229	\$ -	\$ 52,474,229
6	Power Cost Adjustor ("PCA")	\$ (4,724,035)	\$ 4,724,035	\$ -	\$ -	\$ -
7	To Reconcile to New BCOP	\$ (248,210)	\$ -	\$ (248,210)	\$ -	\$ (248,210)
8	Subtotal	\$ 52,226,019	\$ -	\$ 52,226,019	\$ -	\$ 52,226,019
	Rounding	\$ -	\$ (356)	\$ (356)	\$ -	\$ (356)
9	Base Cost of Power and Adjustor Revenue	\$ 52,226,019	\$ (356)	\$ 52,225,663	\$ -	\$ 52,225,663
10	Total Revenue from Sales of Electricity	\$ 94,399,776	\$ (356)	\$ 94,399,420	\$ 3,101,498	\$ 97,500,918
11	Other Revenues	\$ 3,303,366	\$ -	\$ 3,303,366	\$ -	\$ 3,303,366
12	Rounding	\$ -	\$ 356	\$ 356	\$ -	\$ 356
13	Total Revenues	\$ 97,703,142	\$ -	\$ 97,703,142	\$ 3,101,498	\$ 100,804,640
14						
EXPENSES:						
16	Purchased Power	\$ 52,225,663	\$ -	\$ 52,225,663	\$ -	\$ 52,225,663
17	Transmission Operation and Maintenance	\$ 183,288	\$ -	\$ 183,288	\$ -	\$ 183,288
18	Distribution - Operations	\$ 6,816,903	\$ -	\$ 6,816,903	\$ -	\$ 6,816,903
19	Distribution - Maintenance	\$ 3,738,590	\$ -	\$ 3,738,590	\$ -	\$ 3,738,590
20	Consumer Accounting	\$ 3,188,444	\$ -	\$ 3,188,444	\$ -	\$ 3,188,444
21	Customer Service	\$ 772,052	\$ -	\$ 772,052	\$ -	\$ 772,052
22	Sales	\$ 387,186	\$ -	\$ 387,186	\$ -	\$ 387,186
23	Administrative and General	\$ 5,675,495	\$ -	\$ 5,675,495	\$ -	\$ 5,675,495
24	Depreciation and Amortization	\$ 10,857,765	\$ -	\$ 10,857,765	\$ -	\$ 10,857,765
25	Taxes	\$ 3,600,000	\$ -	\$ 3,600,000	\$ -	\$ 3,600,000
26	Total Operating Expenses	\$ 87,445,386	\$ -	\$ 87,445,386	\$ -	\$ 87,445,386
27						
28	Operating Margin Before Interest on L.T.- Debt	\$ 10,257,756	\$ -	\$ 10,257,756	\$ -	\$ 13,359,254
29						
INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS						
31	Interest on Long-term Debt	\$ 6,028,981	\$ -	\$ 6,028,981	\$ -	\$ 6,028,981
32	Interest - Other	\$ 8,823	\$ -	\$ 8,823	\$ -	\$ 8,823
33	Other Deductions	\$ 86,673	\$ -	\$ 86,673	\$ -	\$ 86,673
34	Total Interest & Other Deductions	\$ 6,124,477	\$ -	\$ 6,124,477	\$ -	\$ 6,124,477
35						
36	MARGINS (LOSS) AFTER INTEREST EXPENSE	\$ 4,133,279	\$ -	\$ 4,133,279	\$ -	\$ 7,234,777
37						
NON-OPERATING MARGINS						
39	Interest Income	\$ 171,224	\$ -	\$ 171,224	\$ -	\$ 171,224
40	Other Margins	\$ (192,011)	\$ -	\$ (192,011)	\$ -	\$ (192,011)
41	G&T Capital Credits	\$ 4,026,166	\$ -	\$ 4,026,166	\$ -	\$ 4,026,166
42	Other Capital Credits	\$ 294,675	\$ -	\$ 294,675	\$ -	\$ 294,675
43	Total Non-Operating Margins	\$ 4,300,054	\$ -	\$ 4,300,054	\$ -	\$ 4,300,054
44						
45	EXTRAORDINARY ITEMS	\$ -	\$ -	\$ -	\$ -	\$ -
46						
47	NET MARGINS (LOSS)	\$ 8,433,333	\$ -	\$ 8,433,333	\$ -	\$ 11,534,831
48						
49						

References:

Column (A): Cooperative Schedule A

Column (B): Schedule CSB-6

Column (C): Column (A) + Column (B)

Column (D): Schedule CSB-1

Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING MARGIN ADJUSTMENTS - TEST YEAR

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COOPERATIVE AS FILED	STAFF ADJUSTMENTS	STAFF ADJUSTED
1	REVENUES:			
1	Margin Revenue (Non-Base Cost of Power)	\$ 42,173,757	\$ -	\$ 42,173,757
2				
3	Base Cost of Power Revenue ("BCOP")	\$ 57,198,264	\$ (4,724,035)	\$ 52,474,229
4	Power Cost Adjustor ("PCA")	(4,724,035)	4,724,035	-
5	To Reconcile to New BCOP	(248,210)	-	(248,210)
6	Subtotal	52,226,019	-	52,226,019
7	Rounding	-	(356)	(356)
8	Base Cost of Power and Adjustor Revenue	\$ 52,226,019	\$ (356)	\$ 52,225,663
9				
10	Total Revenue from Sales of Electricity	\$ 94,399,776	\$ (356)	\$ 94,399,420
11				
12	Other Revenues	\$ 3,303,366	\$ -	\$ 3,303,366
13	Rounding		356	356
14				
15	Total Revenues	\$ 97,703,142	\$ -	\$ 97,703,142
16				
17	OPERATING EXPENSES:			
18	Purchased Power	\$ 52,225,663	\$ -	\$ 52,225,663
19	Transmission Operation and Maintenance	183,288	-	\$ 183,288
20	Distribution - Operations	6,816,903	-	\$ 6,816,903
21	Distribution - Maintenance	3,738,590	-	\$ 3,738,590
22	Consumer Accounting	3,188,444	-	\$ 3,188,444
23	Customer Service	772,052	-	\$ 772,052
24	Sales	387,186	-	\$ 387,186
25	Administrative and General	5,675,495	-	\$ 5,675,495
26	Depreciation and Amortization	10,857,765	-	\$ 10,857,765
27	Taxes	3,600,000	-	\$ 3,600,000
28	Total Operating Expenses	\$ 87,445,386	\$ -	\$ 87,445,386
29				
30	Operating Margin Before Interest on L.T.- Debt	\$ 10,257,756	\$ -	\$ 10,257,756
31				
32	INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS			
33	Interest on Long-term Debt	\$ 6,028,981	\$ -	\$ 6,028,981
34	Interest - Other	\$ 8,823	-	8,823
35	Other Deductions	86,673	-	86,673
36	Total Interest & Other Deductions	\$ 6,124,477	\$ -	\$ 6,124,477
37				
38	MARGINS (LOSS) AFTER INTEREST EXPENSE	\$ 4,133,279	\$ -	\$ 4,133,279
39				
40	NON-OPERATING MARGINS			
41	Interest Income	\$ 171,224	\$ -	\$ 171,224
42	Other Margins	\$ (192,011)	-	(192,011)
43	G&T Capital Credits	\$ 4,026,166	-	4,026,166
44	Other Capital Credits	294,675	-	294,675
45	Total Non-Operating Margins	\$ 4,300,054	\$ -	\$ 4,300,054
46				
47	EXTRAORDINARY ITEMS	\$ -	\$ -	\$ -
48				
49	NET MARGINS (LOSS)	\$ 8,433,333	\$ -	\$ 8,433,333

OPERATING MARGIN ADJUSTMENT NO. 1 - BASE COST OF POWER AND
WHOLESALE POWER COST ADJUSTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COOPERATIVE AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Revenues			
2	Base Cost of Power Revenue ("BCOP")	\$ 57,198,264	\$ -	\$ 57,198,264
3	To Move Power Cost Adjustor Rev to New BCOP	-	(4,724,035)	(4,724,035)
4	Base Cost of Power Revenue - Company	\$ 57,198,264	\$ (4,724,035)	\$ 52,474,229
5				
6	Power Cost Adjustor Revenue ("PCA")	(4,724,035)	-	(4,724,035)
7	To Eliminate Power Cost Adjustor Revenue	-	4,724,035	4,724,035
8	Total Power Cost Adjustor Revenue	(4,724,035)	4,724,035	-
9				
10	To Reconcile to Recommended BCOP	-	(248,210)	(248,210)
11				
12	Total Base Cost of Power and PCA (L 4 + L 8 + L10)	52,474,229	(248,210)	52,226,019
13				
14	Rounding	-	(356)	(356)
15	Base Cost of Power Revenue - Company	\$ 52,474,229	\$ (248,566)	\$ 52,225,663
16				
17	Expenses			
18	Purchased Power Expense (From Sch A-2.0)	\$ 52,225,663	\$ -	\$ 52,225,663
19	Rounding	-	-	-
20		52,225,663	-	52,225,663
21				
22	Operating Margin (Line 15 - Line 20)	\$ 248,566	\$ (248,566)	\$ 0
23				
24				
25				Company
26				Proposed &
27		Current		Staff Recommended
		BCOP	Difference	BCOP
28	Test Year Sales (In kWhs)	793,021,534	-	793,021,534
29	Multiplied by: Base Cost of Power per kWh	0.072127000	(0.0062700)	0.065857000
30	Total Base Cost of Power	\$ 57,198,264	\$ (4,972,245)	\$ 52,226,019

References:

Column A: Cooperative Schedule A-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

TOM FORESE

Commissioner

ANDY TOBIN

Commissioner

IN THE MATTER OF THE APPLICATION OF)
SULPHUR SPRINGS VALLEY ELECTRIC)
COOPERATIVE, INC. FOR A HEARING TO)
DETERMINE THE FAIR VALUE OF ITS)
PROPERTY FOR RATEMAKING PURPOSES,)
TO FIX A JUST AND REASONABLE RETURN)
THEREON, TO APPROVE RATE DESIGNED)
TO DEVELOP SUCH RETURN AND FOR)
RELATED APPROVALS.)

DOCKET NO. E-01575A-15-0312

DIRECT

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2016

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EXHIBIT

SSVEC’s Responses to Staff’s Fourth Set of Data Requests	JMK-1
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EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-15-0312

Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"), filed a rate case on August 31, 2015; Staff's recommendations are the following:

1. The base cost of purchased power should be set at \$0.065857 per kWh.
2. SSVEC should inform ratepayers requesting miscellaneous services in advance of the costs they may incur. A current list of all service charges should be available and easily located on the Cooperative's website. In addition, if a service issue occurs due to problems on SSVEC's side of the meter, or due to any maintenance for which SSVEC should be responsible in the normal course of business, the ratepayer should not be charged service charges for any repairs.
3. The SSVEC-proposed increases to its Service Charges should be approved.
4. SSVEC's proposed decrease in the New and Additional Service fee should be approved.
5. If SSVEC docketed proposed changes to its Service Conditions Staff will address the proposed changes in its surrebuttal testimony, or no later than at the hearing.
6. SSVEC should provide the Time of Use analysis ordered in Decision No. 73349 or indicate where this information is located in its case filings.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Julie McNeely-Kirwan. I am a Utilities Analyst V employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Senior Rate Analyst.**

8 A. My duties include reviewing and analyzing applications filed with the Commission, and
9 drafting staff reports and proposed orders for Open Meeting. In addition, my duties include
10 performing rate case sufficiency reviews, preparing written testimony in rate cases, and
11 testifying during related hearings. I have also assisted in the management of rate cases.
12

13 **Q. Please describe your educational background and professional experience.**

14 A. I have a Master's Degree in Political Science from the University of Wisconsin, Madison.
15 Prior to that, I graduated Magna Cum Laude from Arizona State University, with a Bachelor
16 of Arts degree. I have been employed by the Commission as a Utilities Analyst since
17 September of 2006. During that time, I have attended the Annual Regulatory Studies
18 Program, given by the Institute of Public Utilities at Michigan State University, and a number
19 of regulatory courses taught by the New Mexico Center for Public Utilities. In addition, I
20 attend seminars and classes on regulatory issues on an ongoing basis as part of my work for
21 the Commission.
22

23 **Q. What is the scope of your testimony in this case?**

24 A. I will address the base cost of power, the adjustors, and the Service Charges and Service
25 Conditions of Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative"
26 or "Company").

1 **Q. Have you reviewed testimony submitted by the Company in this case?**

2 A. Yes. I reviewed the testimony of Creden W. Huber, David W. Hedrick and Judy K. Lambert,
3 particularly as it pertains to the scope of my testimony.
4

5 **BASE COST OF POWER**

6 **Q. What is SSVEC's current base cost of purchased power?**

7 A. Currently, SSVEC has a base cost of power of \$0.072127 per kilowatt-hour ("kWh"). This
8 base cost of power was set in Decision No. 71274 (September 9, 2009).
9

10 **Q. Is SSVEC proposing to change its base cost of purchased power?**

11 A. Yes. SSVEC is proposing to change its base cost of purchased power to \$0.065857 per kWh.
12

13 **Q. What is Staff's recommendation regarding SSVEC's base of purchased power?**

14 A. Staff recommends a base cost of purchased power for SSVEC of \$0.065857 per kWh, as
15 proposed by SSVEC. Staff has reviewed the Cooperative's cost of purchased power and the
16 associated adjustments and has concluded that it is reasonable to set the base cost of
17 purchased power at \$0.065857 per kWh. A base cost of \$0.065857 per kWh represents a
18 decrease in SSVEC's base cost of power and will more closely align with the Company's
19 current cost of power.
20

21 **Q. Did Staff review the cost of power used by SSVEC in order to calculate its proposed**
22 **base cost?**

23 A. Yes. Staff compared invoices for SSVEC's power costs to the cost of power reported by
24 SSVEC in its current filing, in addition to reviewing SSVEC's proposed adjustments to the
25 cost of power. In comparing the invoices regarding cost of power to the cost of power
26 reported by SSVEC, Staff found an unreconciled difference that was *de minimis* (less than 1%).

1 This difference contributes to a slightly lower base cost of power. Staff found the proposed
2 adjustments to the cost of power to be reasonable.

3
4 **ADJUSTORS**

5 **Q. What adjustor mechanisms does SSVEC currently have in place?**

6 A. SSVEC has the following three adjustors currently in place:

- 7
- 8 • Power Cost Adjustor;
 - 9 • Renewable Energy Standard Tariff Surcharge Adjustor (“REST Adjustor”); and
 - 10 • Demand-side Management Surcharge Adjustor (“DSM Adjustor”)
- 11

12 **Q. What is the purpose of an adjustor mechanism?**

13 A. The purpose of an adjustor mechanism is to recover certain types of costs between rate cases.
14 The Power Cost Adjustor is designed to recover SSVEC’s costs associated with power
15 purchases while the REST Surcharge is designed to recover the costs associated with
16 SSVEC’s Renewable Energy portfolio, and the DSM Adjustor is designed to recover the costs
17 associated with SSVEC’s Demand-Side Management (or Energy Efficiency) portfolio.

18

19 **Q. Please describe the Power Cost Adjustor mechanism, as revised in Decision No.**
20 **73801.**

21 A. Decision No. 73801 (April 5, 2012), changed both the under- and the over-collected
22 thresholds to \$3 million. Should either the under-collected or the over-collected threshold be
23 exceeded, SSVEC must adjust the adjustor rate the following month or file with the
24 Commission to explain why a change is not necessary.

25

1 **Q. Has SSVEC managed the Power Cost Adjustor mechanism in accordance with**
2 **Decision No. 73801?**

3 A. Yes. Thresholds have generally been below the \$3 million thresholds set in Decision No.
4 73801. The highest bank balance in 2015 was \$1.6 million over-collected, while the highest
5 bank balance in 2014 was \$2.4 million over-collected. Both of these peak balances were
6 below the \$3 million threshold.

7
8 The under-collection reached \$3.1 million in January of 2014, going over the threshold. In
9 accordance with Decision No. 73801, SSVEC changed the adjustor rate and the bank balance
10 was under the \$3.0 million threshold by the following month.

11
12 **Q. Please describe the DSM adjustor, as ordered in Decision No. 71274.**

13 A. SSVEC's DSM adjustor was to be reset annually, and calculated based on projected costs,
14 adjusted by the previous under- or over-collection, and divided by projected kWh sales for
15 the year in which the DSM adjustor was to be reset.

16
17 **Q. What is the current status of the SSVEC DSM adjustor?**

18 A. This adjustor mechanism is collecting DSM funds through the adjustor rate. However, it is
19 not currently being used to reset the adjustor rate on an annual basis. Decision No. 73930
20 (June 27, 2013), ordered that the DSM adjustor rate be set at \$0.00027, and that SSVEC "not
21 file its next Energy Efficiency Implementation Plan until further order of the Commission."
22 The adjustor rate has remained at \$0.00027 per kWh since that time. Staff believes that it
23 would be beneficial for SSVEC to file a new implementation plan in accordance with R14-2-
24 2418(B), on either June 1, 2017, or earlier if SSVEC so elects. Staff also believes that the
25 SSVEC's next implementation plan should include an adjustor reset.

1 **Q. Please describe the REST Adjustor.**

2 A. Decision No. 71274 approved the establishment of a REST Adjustor for SSVEC.
3 (Previously, SSVEC recovered REST costs through a REST tariff and surcharge.) The annual
4 REST Implementation Plan application was to include any change to the adjustor rate and
5 cap, for approval, disapproval, or modification by the Commission.

6
7 **Q. Has SSVEC included the adjustor rate and cap in its annual REST plans?**

8 A. Yes. SSVEC has included the adjustor rate and cap in its annual REST plans, even when no
9 change was being requested.

10
11 **Q. Is SSVEC proposing any changes to any of its adjustor rates in this rate case?**

12 A. No.

13
14 **Q. Is Staff proposing any changes to the adjustor mechanisms?**

15 A. No. Not to the adjustor mechanisms themselves. But Staff is proposing that the
16 Cooperative file a Plan of Administration ("POA") for each of its adjustor mechanisms.

17
18 **Q. Why is Staff proposing that the Cooperative file a POA for each of its adjustor
19 mechanisms?**

20 A. With respect to adjustor mechanisms, the purpose of a POA is to create a record describing
21 the intended functioning of the adjustor, including how the adjustor rate is reset. In
22 particular, POAs for adjustor mechanisms should include a specific list of the types of costs
23 permitted to be recovered through each adjustor. This should ensure that no inappropriate
24 costs are recovered through the adjustors.

25

SERVICE CHARGES

Q. Is the Company proposing any changes to its Service (or Miscellaneous) Charges?

A. Yes. SSVEC is proposing to:

- increase the Service Call During Business Hours charge from \$50 to \$75;
- increase the Service Call After Hours charge from \$75 to \$100;
- increase the Non-Pay Collection During Business Hours charge from \$40 to \$60; and
- increase the Service Connect Callbacks charge from \$40 to \$50.

Q. Does Staff agree with these proposed changes?

A. Yes. Although still less than the actual cost of providing these services, the new charges proposed by SSVEC would cover more of its costs.

Q. Does Staff believe that these fees should be increased to cover the full cost of these services?

A. In time, yes. A more gradual approach will cover more of the costs, while being less likely to impose rate shock on customers who require these services.

Q. Does Staff have any other recommendations with respect to these increases?

A. Yes. Staff recommends that SSVEC inform ratepayers requesting these services in advance of the costs they are incurring. Staff also recommends that a current list of all service charges be available and easily located on the Cooperative's website. In addition, if a service issue occurs due to problems on SSVEC's side of the meter, or due to any maintenance for which SSVEC should be responsible in the normal course of business, the ratepayer should not be charged service charges for repairs.

1 **Q How many customers will be impacted by these proposed changes?**

2 A. SSVEC noted less than 100 occurrences for each of the services for which it is
3 recommending a fee increase.

4
5 **Q. Is SSVEC proposing any other changes to its Service (or Miscellaneous) Charges?**

6 A. Yes. SSVEC is proposing a decrease from \$50.00 to \$30.00 in the fee for New and
7 Additional Service with no field visit. This fee affects many more customers than the four
8 fees listed above, meaning that more SSVEC customers will be affected by this decrease in
9 the Service or Miscellaneous Fees than by the four increases discussed herein.

10

11 **Q. Why is SSVEC proposing to decrease the fee for New and Additional Service from \$50**
12 **to \$30?**

13 A. Prior to SSVEC's last full rate case, the New and Additional Service fee was \$25, and field
14 trips were frequently required. In 2009, this fee was raised to \$50. Subsequently, there were
15 complaints about the increase and, since 2009, most of the transfer field trip expenses have
16 been eliminated, lowering the amount SSVEC needs to charge in order to stay whole on this
17 type of service. SSVEC is proposing to lower the fee in order to pass on savings to members
18 and to address complaints about the 2009 increase.

19

20 **Q. How many SSVEC customers would be affected by the proposed decrease?**

21 A. In the case of New and Additional Services, SSVEC notes approximately 5,700 occurrences,
22 indicating that this is a far more commonly utilized service.

23

24 **Q. What is Staff's recommendation with respect to the proposed decrease in the New**
25 **and Additional Service fee?**

26 A. Staff recommends that the Commission approve the proposed decrease in this fee.

CHANGES TO SERVICE CONDITIONS

Q. Have revisions to SSVEC's Service Conditions been recently addressed?

A. Yes. In Docket No. E-01575A-14-0378 (application filed October 31, 2014), SSVEC proposed changes to its Service Conditions. The focus of the application was on changes that would not result in changes to the Cooperative's approved rates and charges for service, or which would be contrary to, or inconsistent with, the Arizona Administrative Code. Decision No. 74992, approving most of SSVEC's proposed changes, was docketed on March 16, 2015.

Q. Did SSVEC file proposed changes to the Service Conditions as part of its current rate case application?

A. No. Review of the SSVEC rate case application indicated no proposed changes to its Service Conditions. The application only proposed changes to the Service Charges, as discussed herein.

Q. Has Staff become aware that SSVEC may be proposing changes to its Service Conditions since the filing of the current rate case application?

A. Yes. In response to data request JKM 4.1 SSVEC (Exhibit JMK-1) SSVEC indicated that it was proposing changes to its Service Conditions in the current rate case. At that time, SSVEC provided a redlined draft to Staff showing the proposed changes.

Q. Has SSVEC filed proposed changes to its Service Conditions in the rate case docket, either as part of an amended application, or as a supplement to the application?

A. No. SSVEC has not filed the proposed changes to Service Conditions in the docket, either as part of the application, or separately.

1 **Q. If SSVEC does, in fact, docket proposed changes, what does Staff propose?**

2 A. If SSVEC docket a final version of its proposed changes Staff will address the proposed
3 changes in its surrebuttal testimony or no later than at the hearing in this matter..
4

5 **TIME OF USE ("TOU") STUDY**

6 **Q. Do you wish to address anything else in your testimony?**

7 A. Yes, Decision No. 73349 (August 21, 2012), an order amending Decision No. 71274
8 (September 8, 2009), ordered SSVEC to submit, in its next rate case, an analysis of TOU
9 rates, including a proposal for TOU rates that would maximize customer participation in a
10 fair and reasonable manner. Staff has reviewed the streamlined rate case and the current rate
11 case application and has not identified any analysis that conforms to the requirements of
12 Decision No. 73449.
13

14 **Q. What does Staff recommend?**

15 A. Staff recommends that SSVEC either file an analysis in this docket or file a letter explaining
16 why TOU rates are not appropriate for its service territory. Staff would consider little to no
17 TOU variation in SSVEC's costs as a basis for Staff's support of eliminating the requirement
18 to file a TOU proposal.
19

20 **SUMMARY OF STAFF RECOMMENDATIONS**

21 **Q. Please summarize Staff's recommendations.**

22 A. Staff's recommendations are the following:
23

24 1. The base cost of purchased power should be set at \$0.065857 per kWh.
25

1 2. SSVEC should inform ratepayers requesting miscellaneous services in advance of the
2 costs they may incur. A current list of all service charges should be available and
3 easily located on the Cooperative's website. In addition, if a service issue occurs due
4 to problems on SSVEC's side of the meter, or due to any maintenance for which
5 SSVEC should be responsible in the normal course of business, the ratepayer should
6 not be charged service charges for any repairs.

7
8 3. The SSVEC-proposed increases to its Service Charges should be approved.

9
10 4. The decrease in the New and Additional Service fee should be approved.

11
12 5. If SSVEC docketed proposed changes to its Service Conditions Staff will address the
13 proposed changes in its surrebuttal testimony, or no later than at the hearing.

14
15 6. SSVEC should provide the TOU analysis ordered in Decision No. 73349 or indicate
16 where this analysis is located in its case filings.

17
18 **Q. Does this conclude your direct testimony?**

19 **A. Yes, it does.**

**ARIZONA CORPORATION COMMISSION
STAFF'S FOURTH SET OF DATA REQUESTS TO
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-15-0312
NOVEMBER 2, 2015**

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

*****For all data requests for which you do not have the information requested, please state such and skip to the next data request. Also, for responses to data requests that may be voluminous or overly burdensome, please contact the assigned analyst, Julie Mcneely-Kirwan at 602-542-0833 to discuss.**

JMK 4.1: Is Sulphur Springs proposing any changes to its Rules and Regulations/Service Conditions in the current rate case, aside from the proposed changes to the service charges (now in the Standard Offer Tariff)? If so, please provide a redline showing any changes to the Rules and Regulations/Service Conditions that Sulphur Springs is proposing as part of the current rate case.

Response: Yes. SSVEC is proposing changes to its Service Conditions in the current rate case. Attached hereto as Attachment JMK 4.1 is a redlined draft of the Service Conditions showing the proposed changes.

Provided by: Lainie Keltner, Manager - Customer Service & Collections, SSVEC

JMK 4.2: Referencing Schedule E-7.6.1, please explain the adjustments to purchased power costs relative to AEPCO. Please include an explanation as to why the second yearly change to the adjustor was used to adjust the purchase power cost, as opposed to using the actuals.

Please provide a calculation showing what the adjusted purchased power cost would be without the adjustment referenced above (second yearly change used, rather than actuals). Please state, also, what the base cost of power would be without this adjustment (Referencing Schedule H-2.1.6).

Response: The response to this data request was previously provided via e-mail on November 2, 2015. A copy of this response is attached hereto as Attachment JMK 4.2.

Provided by: Judy Lambert, Rate Department, Guernsey

BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Interim Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-01575A-15-0312
SULPHUR SPRINGS VALLEY ELECTRIC)	
COOPERATIVE, INC. FOR A HEARING TO)	
DETERMINE THE FAIR VALUE OF ITS)	
PROPERTY FOR RATEMAKING PURPOSES,)	
TO FIX A JUST AND REASONABLE RETURN)	
THEREON, TO APPROVE RATES DESIGNED)	
TO DEVELOP SUCH RETURN AND FOR)	
RELATED APPROVALS)	
_____)	

DIRECT
TESTIMONY
OF
RAY T. WILLIAMSON
UTILITIES ENGINEER - ELECTRICAL
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2016

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EXECUTIVE SUMMARY
SULPHIR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-15-0312

Ray Williamson's testimony presents the results of the Utilities Division Staff's ("Staff") Engineering review of the rate case application ("Application") of Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative") filed with the Arizona Corporation Commission ("Commission") August 31, 2015, and the results of Staff's evaluation of the Cooperative's electric distribution system in Arizona.

Based on its review of SSVEC's Application, inspection of the Cooperative's electric system, discussions with the Cooperative's Engineering Manager Daniel Wilson and Technical Services Manager Manny Gonzalez, and responses to data requests, Staff's conclusions are as follows:

- a. SSVEC is operating and maintaining its electrical system properly.
- b. SSVEC is carrying out system improvements, upgrades, and new additions to meet the current and projected load of the Cooperative in an efficient and reliable manner. These improvements, system upgrades and new construction are reasonable and appropriate. The Cooperative's plant in service for the SSVEC service territory is "used and useful."
- c. The Cooperative has an acceptable level of system losses, consistent with industry guidelines, and
- d. SSVEC has a satisfactory record of service interruptions in the historic period from 2010 through 2014, reflecting satisfactory quality of service.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Ray Thomas Williamson. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what capacity are you employed?

A. I am employed by the Arizona Corporation Commission (“ACC” or “Commission”) as a Utilities Division (“Staff”) Engineer.

Q. Please describe your educational background.

A. I have a Bachelor’s degree in Engineering, specializing in Nuclear Engineering from the U.S. Military Academy at West Point, New York in 1970. I graduated with a Master of Public Service Degree from Western Kentucky University in 1976. I received an M.B.A. degree specializing in Finance, from Arizona State University in 1982. I received the Certified Energy Manager (C.E.M.) designation from the Association of Energy Engineers in 1984.

Q. Please describe your pertinent work experience.

A. I have worked at the Commission since October 1992 as an Economist, Senior Rate Analyst, Chief of Economics and Research, Acting Director of the Utilities Division, and Utilities Engineer. During this time I have performed engineering analyses for financing and rate cases, conducted analyses of solar and other renewable projects, developed and implemented rule-making programs, reviewed and evaluated energy efficiency and renewable energy projects and programs, and worked with electrical utilities on Renewable Energy Standard and Tariff (“REST”) Rules compliance. I acted as the ACC Chairman’s representative on the Arizona Power Plant and Transmission Line Siting Committee from 2001-2005.

1 Prior to working at the Commission, I was employed at the Arizona Energy Office as an
2 Energy Economic Analyst and Manager of the Arizona Solar Energy Office from July 1985
3 to October 1992. From December 1980 to June 1985, I worked as a Solar Engineering
4 Specialist and Associate Director of the Arizona Solar Energy Commission. In the private
5 sector, I served as a sales engineer for two solar companies: Solaron Corporation and
6 Ramada Energy Systems, Inc. from July 1976 to July 1980.

7
8 **PURPOSE OF TESTIMONY**

9 **Q. As part of your assigned duties at the Commission, did you perform an analysis of the**
10 **application that is the subject of this proceeding?**

11 A. Yes, I did.

12
13 **Q. Is your testimony herein based on that analysis?**

14 A. Yes, it is.

15
16 **Q. What is the purpose of your prefiled testimony?**

17 A. The purpose of my testimony is to present the results of Staff's engineering evaluation of
18 Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC" or "Cooperative") electric
19 distribution system operations and planning in the State of Arizona.
20

ENGINEERING REVIEW

Q. Did you perform an engineering evaluation of SSVEC's electrical system?

A. Yes, I did. Based on a review of SSVEC's rate application ("Application"), a site visit in which I inspected parts of SSVEC's electric distribution system in Arizona and held discussions with members of SSVEC's staff, and responses to data requests from Staff, I prepared an engineering report presenting my findings.

Q. Is the engineering evaluation report a part of your testimony today?

A. Yes it is. It is attached as Exhibit 1.

CONCLUSIONS

Q. What conclusions did Staff derive based on its engineering evaluation of SSVEC's electric distribution system in Arizona?

A. Staff's conclusions, as described in Staff's Engineering Report (attached) are as follows:

- a. SSVEC is operating and maintaining its electrical system properly.
- b. SSVEC is carrying out system improvements, upgrades, and new additions to meet the current and projected load of the Cooperative in an efficient and reliable manner. These improvements, system upgrades and new construction are reasonable and appropriate. The Cooperative's plant in service for the SSVEC service territory is "used and useful."
- c. The Cooperative has an acceptable level of system losses, consistent with industry guidelines, and
- d. SSVEC has a satisfactory record of service interruptions in the historic period from 2010 through 2014, reflecting satisfactory quality of service.

1 **Q.** **Does this conclude your direct testimony?**

2 **A.** Yes, it does.

MEMORANDUM

TO: Julie McNeely-Kirwin
Public Utilities Analyst V
Utilities Division

FROM: Ray Williamson *Ray T. Williamson*
Utilities Engineer
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: February 19, 2016

RE: STAFF ENGINEERING REPORT – IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS (DOCKET NO. E-01575A-15-0312)

GENERAL

On August 31, 2015, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") submitted an application to the Arizona Corporation Commission ("Commission") for a hearing to determine the fair value of its property for ratemaking purposes, to fix a just and reasonable return thereon, to approve rates designed to develop such return and for related approvals.

ENGINEERING EVALUATION

SSVEC is headquartered in Wilcox, Arizona. SSVEC's service area is located primarily in Cochise County, but also serves portions of Santa Cruz, Pima and Graham Counties. SSVEC is a member-owned non-profit electric cooperative. It is governed by a Board of Directors elected by its member-customers. Its 5,700 square miles of service territory encompass parts of four counties in Arizona. SSVEC serves approximately 52,000 members in Arizona.

Site Visit

Staff, represented by Ray T. Williamson, met with SSVEC Staff on November 25, 2015. During the visit, the history of the Cooperative's operations in Arizona and its organization related to customer service, planning, engineering, construction, system operations, meters, rates and maintenance were discussed. Staff met with Daniel Wilson, Engineering Manager, and Manny

Gonzales, Technical Services Manager. Cost, location and reason for major construction projects were discussed as well as points of delivery and source of wholesale power purchases, operations procedures on the electric system, inspection procedures, system characteristics, and potential for growth. Mr. Wilson and Mr. Gonzales then took Staff on an inspection tour of the SSVEC facilities located in the Wilcox area.

Electric System Characteristics

At the end of September 2015, SSVEC served 51,522 customers of which 41,713 were residential, 8,460 were 50 kva or less commercial and industrial customers, 414 were over 50 kva commercial and industrial customers, 889 were irrigation customers, and 46 were public street and highway lighting customers. The number of services in Arizona, including all classes of customers, increased from 51,063 in 2010 to 51,522 in September 2015, an average increase of less than 0.99 percent.

**Total Number of Customers – Year-end Values
November 17th, 2015**

Revenue Class	2010	2011	2012	2013	2014	2015*
1. Residential (excl seas.)	41,454	41,311	41,091	41,036	41,190	41,713
2. Irrigation	718	783	791	827	852	889
3. Comm. & Ind. -50 kva or less	8,475	8,458	8,485	8,501	8,523	8,460
4. Comm. & Ind. Over 50 kva	370	386	392	396	402	414
5. Public St. & Highway lighting	46	45	46	46	46	46
6. Total Number of Customers (1 thru 5)	51,063	50,983	50,805	50,806	51,013	51,522

*Up to September 2015

Actual system peak demand rose each year from 2010-2013, but fell slightly in 2014. Annual load increased annually from 2010 through 2012, but declined slightly in both 2013 and 2014.

Historical System Characteristics

Year	Actual Peak Demand in MW	Month	Annual Demand Growth (%)	Annual Load (MWH)	Annual Load Growth (%)
2010	192.6	June		819,288	
2011	204.8	June	6.3	835,767	2.01
2012	205.7	June	0.43	847,925	1.45
2013	207.9	June	1.06	829,294	(2.11)
2014	198.6	July	(4.4)	793,046	(4.37)

Annual System Losses

SSVEC's annual system losses were between 5.5 percent and 7.4 percent between 2010 and 2014. Losses were at their lowest levels in 2013 and 2014. These losses are well within the industry guidelines of 10 percent per year for rural electric cooperatives.

SSVEC Line Loss Calculation 2010 to 2014

MWH					
Year	Purchased	Sales	Own Use	Losses	Loss %
2014	979,247	924,230	1,499	53,518	5.5%
2013	929,466	873,738	1,640	54,088	5.8%
2012	915,201	853,741	1,543	59,917	6.5%
2011	910,114	840,861	1,562	67,691	7.4%
2010	880,283	822,777	1,394	56,112	6.4%

Percentage losses can be described as the losses (in MWH) divided by MWH purchased.

Quality of Service

Outages that occur in a utility's system stem from a variety of causes. The outages are an indicator of the quality of service to customers. Storms are the cause of some of the outages. Other outages are related to equipment failure and planned outages. The historical data relative to SSVEC's distribution system outages are shown in the Service Interruptions table below. The average outage minutes per customer for the years 2010 to 2014 are an indicator of SSVEC's quality of service.

Service Interruptions

	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Total
	Power Supplier	Major Event	Planned	All Other	
	(a)	(b)	(c)	(d)	(e)
2014	0.00	0.00	8.11	79.89	88.00
2013	7.07	22.69	2.66	81.60	114.02
2012	2.8	2.39	3.35	58.34	66.88
2011	5.41	139.03	5.48	106.53	256.45
2010	.013	0	2.52	147.41	150.06

The SSVEC outage minutes in all five years are all below the level of concern as outlined in the Rural Utilities Service ("RUS") Bulletins which Staff uses to judge the adequacy of the Cooperative's reliability. Therefore, Staff believes that SSVEC's system reliability and quality of service are satisfactory.

Distribution System Inspection

During Staff's site visit on November 25, 2015, Staff inspected the Willcox substation, and portions of the transmission, sub transmission, and distribution systems including the locations of system improvements and upgrades that have been made in the last few years.

In general, the SSVEC electric system appears to be well planned and maintained. No obvious problems or deficiencies were observed during the inspection tour. SSVEC's routine maintenance program appears to be robust.

Projected System Growth

SSVEC has projected that its peak demand growth will fluctuate from 1.7 percent to 2.5 percent growth annually over the next five-year period.

Projected System Growth		
Year	System Peak	Percentage Growth
2015	203 MW*	2.2%
2016	207.1 MW	2.0%
2017	212.4 MW	2.5%
2018	216.0 MW	1.7%
2019	221.5 MW	2.5%

* Actual Peak

CONCLUSIONS

Based on its review of SSVEC's Application, inspection of the Cooperative's electric system, discussions with the Cooperative's Engineering Manager Daniel Wilson and Technical Services Manager Manny Gonzalez, and responses to data requests, Staff's conclusions are as follows:

- a. SSVEC is operating and maintaining its electrical system properly.
- b. SSVEC is carrying out system improvements, upgrades and new additions to meet the current and projected load of the Cooperative in an efficient and reliable manner. These improvements, system upgrades and new construction are reasonable and appropriate. The Cooperative's plant in service for the SSVEC service territory is "used and useful"
- c. The Cooperative has an acceptable level of system losses, consistent with industry guidelines, and
- d. SSVEC has a satisfactory record of service interruptions in the historic period from 2010 through 2014 reflecting satisfactory quality of service.